The Real Estate TRENDS

AUGUST 30
1957

A concise monthly digest of real estate and construction fundamentals and trends . . . A part of the complete service known as the Real Estate Analyst Reports

Volume XXVI

Number 38

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

A review of the charts shown in this issue is encouraging. Real estate activity, which has dropped every month for the past six, rose slightly, and stands for the month at 8.1% below our long-term computed normal. A comparison of similar declining periods in the past, however, shows that it is not unusual for a reaction of this sort to occur and to last for a month or two before the drop is resumed. In no case, however, in the past, when a readjustment period was really developing in the real estate field, has there been a reaction which exceeded 4 months in length. We will watch the next few months with great interest to see if the rise continues or if the rise we have just experienced is temporary in nature.

It is also interesting to notice on page 389 of this report that private housing starts rose by a sufficient amount to break through the dashed lines on this chart which we consider the range of normal fluctuations. This is the first indication since the end of 1954 that the decline in new building may be halting. Here, too, if the next few months should show a volume of building above our dashed line, it would indicate to us that a change in trend is taking place.

The third factor which is encouraging is that the selling price of existing residences is holding steady in spite of the tight money situation. Sales are not taking place as readily as they have in the past, but apparently those that are coming through are not showing a drop over the price levels which have been received earlier this year. We have not had the declining trend during 1957 which we had during the greater part of 1956.

Some encouragement might also be secured from the trend of applications for FHA-insured loans. Since the first of the year this trend has been rising, and it will probably continue to rise during the remainder of 1957. This, however, is offset to some extent by the drop in applications for veterans' loans. If the two were added, the drop in veterans' loans would more than offset, in the last 3 or 4 months, the increase in FHAs.

The drop in veterans' loans, of course, is easily explained, as very little mortgage money is available at the 4½% maximum interest which is allowed on these loans. Veteran lending will continue to drop, even at an accelerated rate, as the maximum interest rate is so far below the market that no banks, or other fiduciary organizations, would be justified in lending the money which has been

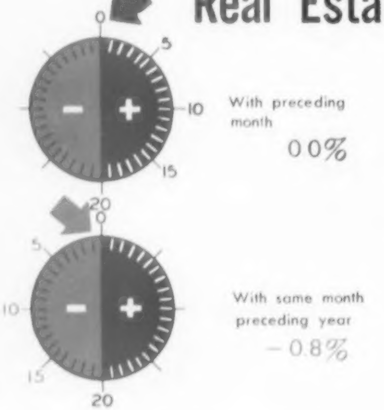
entrusted to them by their depositors on loans at this rate of interest, when other investments with equal or greater safety are available paying higher rates.

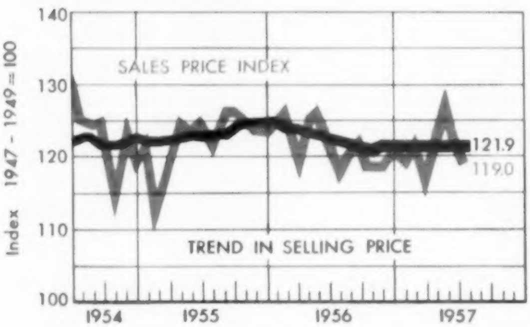
AVERAGE INTEREST RATE OF RECORDED MORTGAGES
IN 12 MAJOR CITIES OF THE UNITED STATES

Jan.	'54	5.187%	Jan.	'56	5.105%	May	'57	5.486%
Apr.	'54	5.173	Apr.	'56	5.157	June	'57	5.505
July	'54	5.089	July	'56	5.141	July	'57	5.501
Oct.	'54	5.092	Oct.	'56	5.229			
Jan	'55	5.045	Jan.	'57	5.363			
Apr.	'55	5.079	Feb.	'57	5.478			
July	'55	5.050	Mar.	'57	5.459			
Oct.	'55	5.055	Apr.	'57	5.507			

As can be seen in the table above, mortgage interest rates, as shown by recordings in 12 major cities of the United States, dropped infinitesimally in July after rising to slightly more than $5\frac{1}{2}\%$. Whether this represents a real drop or whether succeeding months will show a resumption of the rise is too early to say. It

Real Estate Sales Price Comparisons





Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period	Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period
1947-49	100.0	$12,000	Oct. '48	104.5	$12,540
1913	40.1	4,812	Oct. '53	119.7	14,360
1918	34.1	4,092	Oct. '54	122.3	14,680
Mar. '29	73.9	8,868	Oct. '55	125.1	15,010
May '32	34.8	4,176	Jan. '56	125.3	15,035
			May '56	123.5	14,820
Apr. '34	44.8	5,376	Oct. '56	121.9	14,630
July '37	40.1	4,812	Jan. '57	121.9	14,630
Apr. '38	42.8	5,136	Feb. '57	121.9	14,630
Mar. '41	40.1	4,812	Mar. '57	121.9	14,630
			Apr. '57	121.9	14,630
			May '57	121.9	14,630
			June '57	121.9	14,630
			July '57	121.9*	14,630*

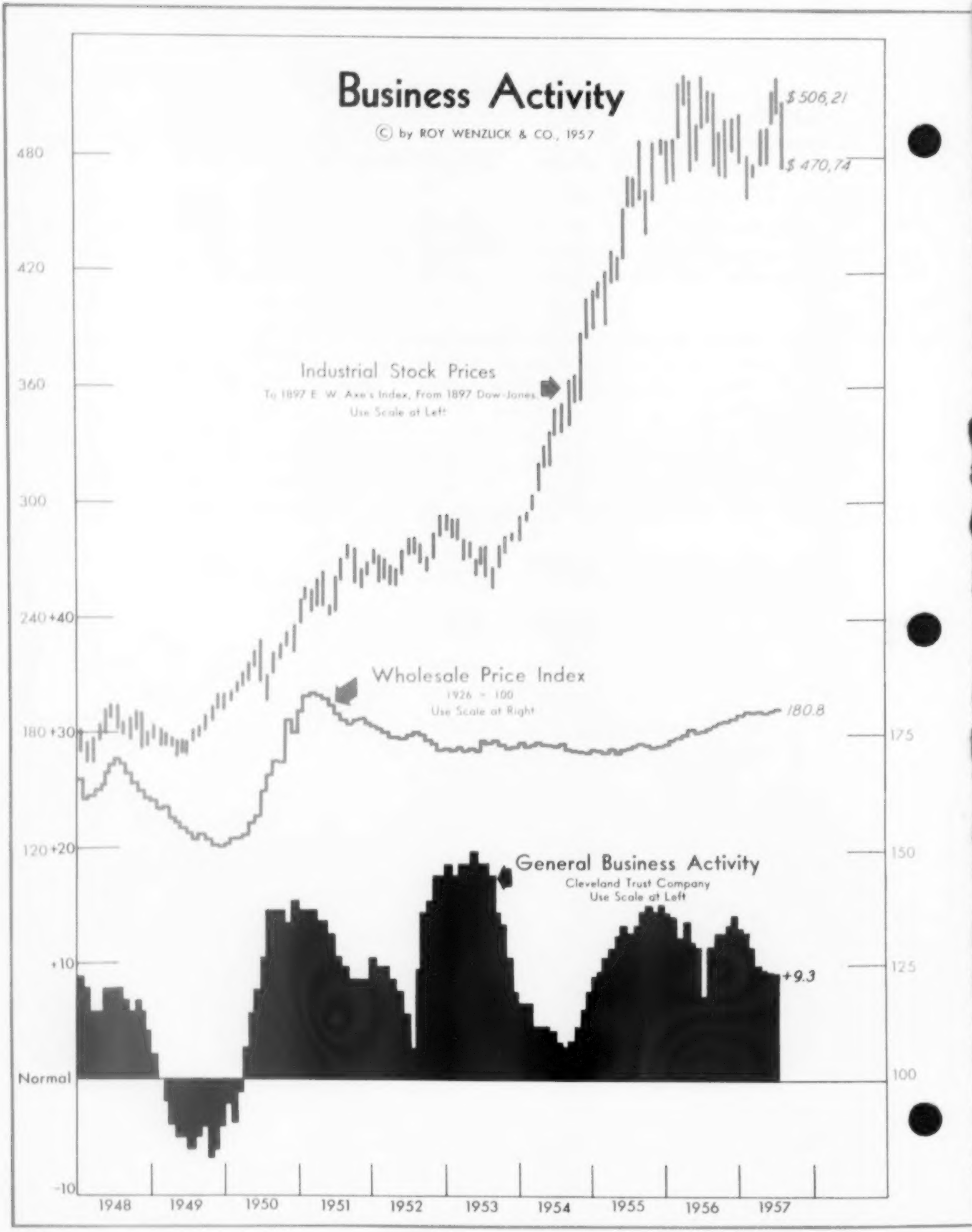
*Preliminary.

seems, however, that the great probability is that mortgage interest rates will go higher. It would not be surprising were they to reach 6% some time within the next year or two, and then hold at this level for a period of years. When the Federal Government is paying $3\frac{1}{2}$% on 91-day money, and 4% on 2-year money, it seems that $5\frac{1}{4}$% does not offer a sufficient differential to attract enough money into the real estate field in comparison with other demands.

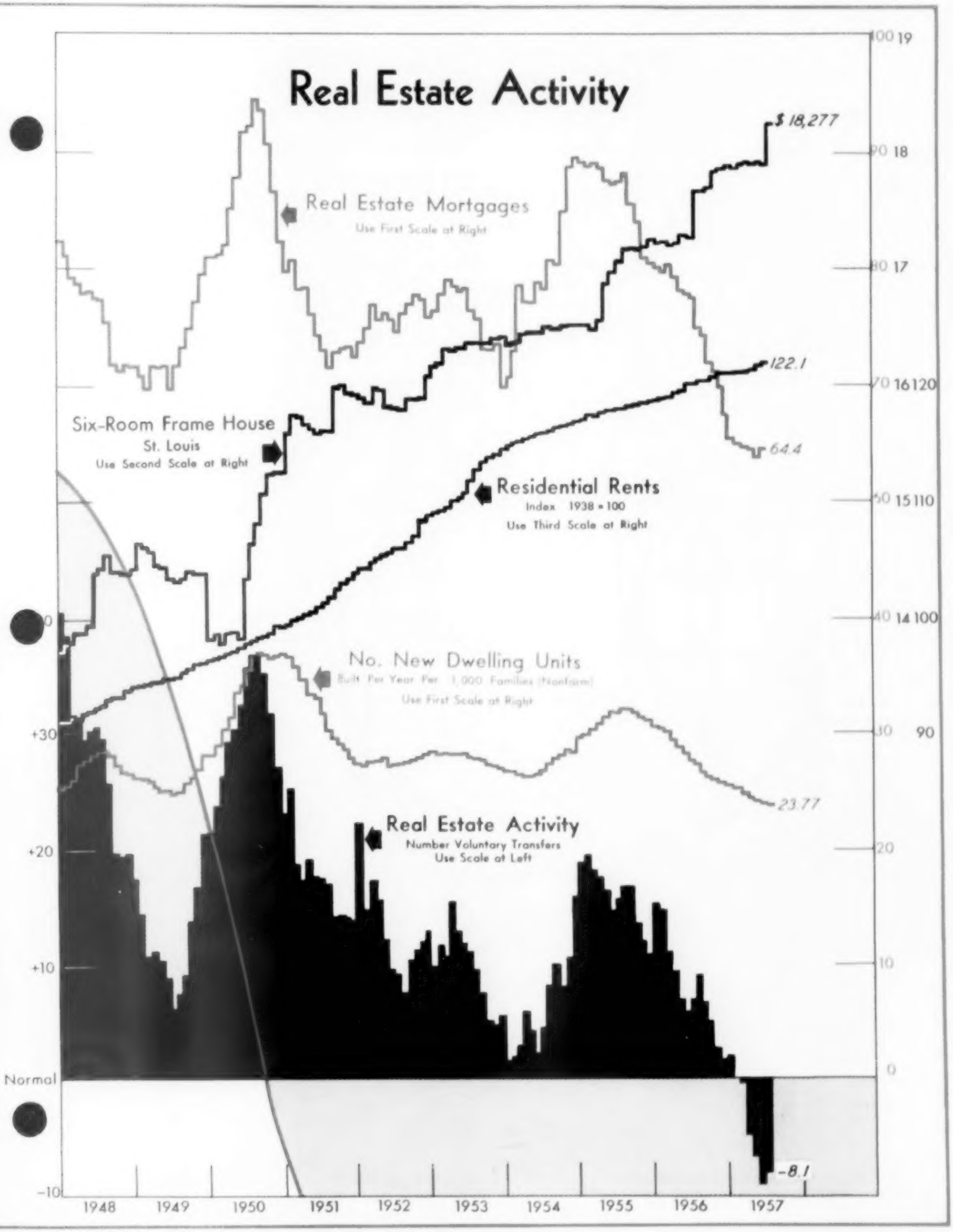
It is doubtful whether the changes in the FHA permissible interest rate with lower downpayments will prove attractive to investors. Of course, it will attract some money, but probably not enough to take care of the demand.

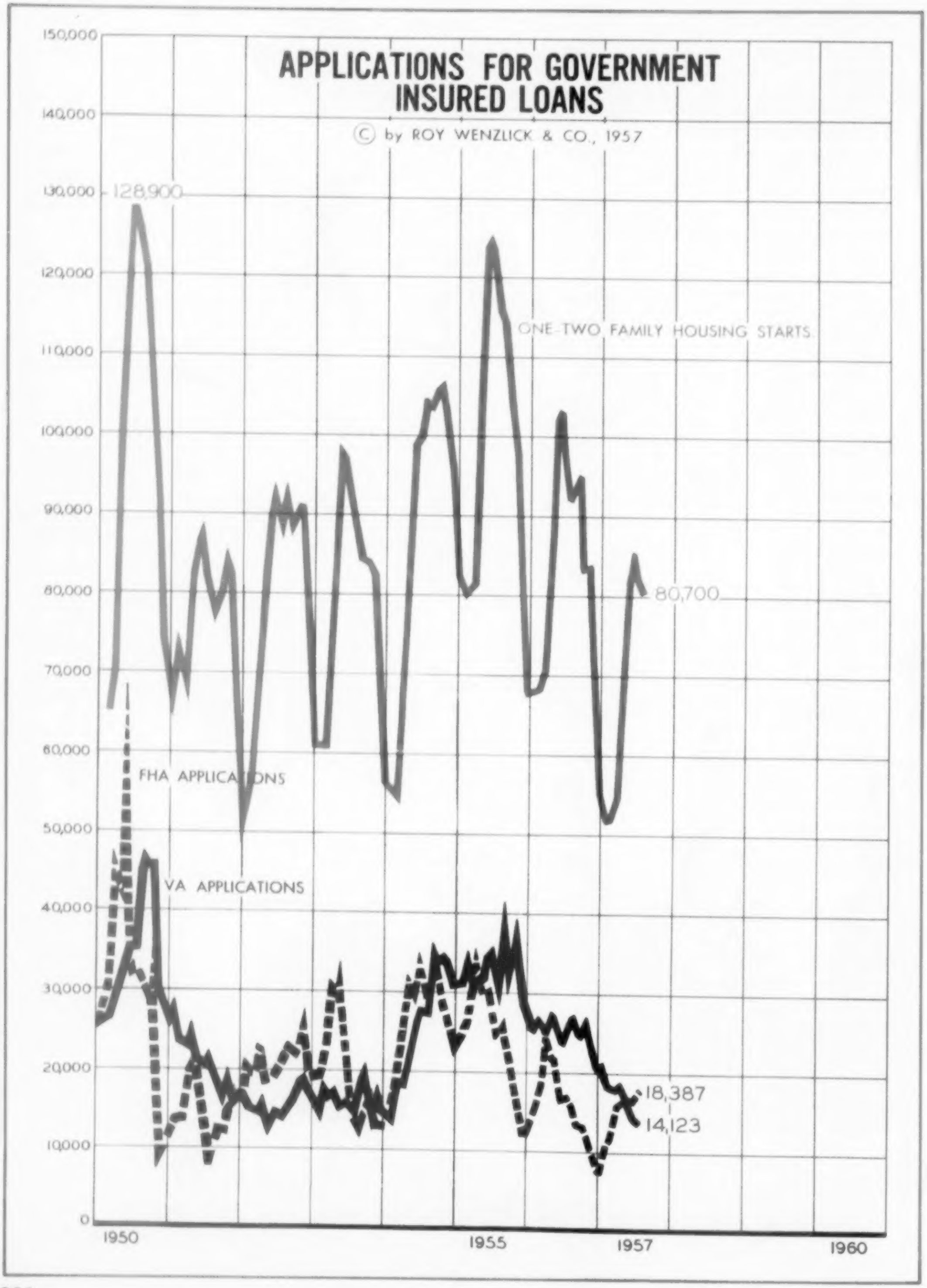
The spread on the following pages shows general business activity, wholesale prices, and stock market prices in comparison with the various real estate factors. These charts show that the cost of building our standard six-room frame house increased slightly during the month. This has been the first increase of any size in the last 6 months. Residential rents continue to creep up, and we believe that this upward movement will continue for at least some months in the future. There is relatively little vacancy, and in spite of some softening in business conditions, it looks as if demand will exceed supply

(cont. on page 393)



Business Activity
© by ROY WENZLICK & CO., 1957
Industrial Stock Prices
To 1897 E. W. Axe's Index, From 1897 Dow-Jones.
Use Scale at Left
$ 506,21
$ 470,74
Wholesale Price Index
1926 = 100
Use Scale at Right
180.8
General Business Activity
Cleveland Trust Company
Use Scale at Left
+9.3
480
420
360
300
240 +40
180 +30
120 +20
+10
Normal
-10
175
150
125
100
1948
1949
1950
1951
1952
1953
1954
1955
1956
1957


Real Estate Activity
Real Estate Mortgages
Use First Scale at Right
$ 18,277
Six-Room Frame House
St. Louis
Use Second Scale at Right
122.1
64.4
Residential Rents
Index 1938 = 100
Use Third Scale at Right
No. New Dwelling Units
Built Per Year Per 1,000 Families (Nonfarm)
Use First Scale at Right
23.77
Real Estate Activity
Number Voluntary Transfers
Use Scale at Left
-8.1
+30
+20
+10
Normal
-10
1948
1949
1950
1951
1952
1953
1954
1955
1956
1957

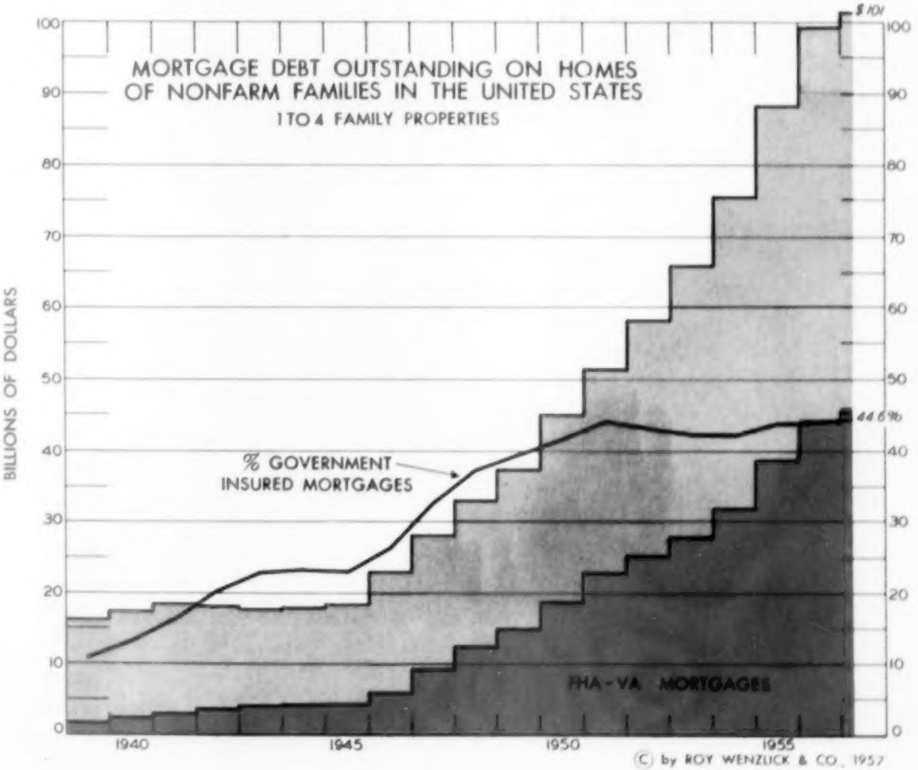

APPLICATIONS FOR GOVERNMENT INSURED LOANS
© by ROY WENZLICK & CO., 1957
150,000
140,000
130,000
128,900
120,000
110,000
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
ONE-TWO FAMILY HOUSING STARTS
80,700
FHA APPLICATIONS
VA APPLICATIONS
18,387
14,123
1950
1955
1957
1960

(cont. from page 389)

on rental units during the remainder of 1957.

Mortgage activity has been dropping consistently since 1954, as has real estate activity. The number of new dwelling units built per 1,000 families has also been declining since the early part of 1955, although the declines in the recent past have been very slight.

The chart below shows the mortgage debt in billions of dollars outstanding on homes of nonfarm families in the United States. No apartment properties of more than four families are included. The red portion of the chart shows that part of the mortgage debt which is insured by agencies of the Federal Government. This chart would indicate that at the present time, more than $45 billion of mortgage indebtedness has been underwritten by either the FHA or the Veterans Administration. The solid blue line on the chart shows the percentage which this forms of the mortgage indebtedness. It has increased from approximately 10% in 1939 to 44.6% at the present time. There has been relatively little change in this percentage since 1951, in spite of the large increase in indebtedness during these years. Total indebtedness at the present time exceeds $100 billion.



This chart shows strikingly the tremendous increases in mortgage indebtedness which took place during 1953, 1954, 1955, and 1956, increasing from a little more than $58 billion to practically $100 billion in that period. Even with the present difficulty in financing, when 1957 is over it will be found that mortgage debt has increased again by a sizable amount. It should be emphasized that this chart shows the amount outstanding on mortgage indebtedness, which means that all payments on mortgages formerly made have been subtracted from the total.